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Circuit City to Shut Down



Jeremy Bales/Bloomberg News

Circuit City, which filed for bankruptcy in November after months of falling sales, is liquidating.

By STEPHANIE ROSENBLUM

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Circuit City Stores, a bellwether American retailer, said Friday that it would go out of business, stripping the nation of its second-largest consumer electronics chain.

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The company, which filed for bankruptcy protection in November but had hoped to emerge in a slimmed-down form, said instead that it would liquidate all its stores and assets.

Most of the chain's 34,000 store employees will be laid off. Closing sales will begin as early as Saturday and will last until the merchandise is gone or about the end of March.

Just last week, Circuit City, with 567 stores, was in talks with two potential buyers, but it was unable to reach an agreement with its creditors and lenders.

"We are extremely disappointed by this outcome," said James A. Marcum, acting president and chief executive of Circuit City Stores. He called the liquidation "the only possible path" for the 60-year-old company.

The demise of Circuit City, while not surprising given its declining sales, is part of a radical shift taking place in retailing. Weak chains — unable to weather the freeze-up in consumer spending and choked by tight credit markets — are closing.

The downturn comes after years of growth, when retailers — responding to a flood of demand from consumers spending borrowed money — opened thousands of stores. Now that the housing downturn and economic crisis have turned off the credit spigot and sent frightened consumers into hiding, it is becoming evident that many of those stores are not needed.

"We are incredibly over-stored in many sectors," said Stacey Widlitz, an analyst with

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Pali Research. "If you don't have the balance sheet to really weather the storm for a couple of years, then that's it."

Last year, a raft of retailers, including Boscov's, Sharper Image, Mervyns, Linens 'n Things, Whitehall Jewelers and Steve & Barry's, filed for bankruptcy protection. This week, Goody's Family Clothing and Gottschalks also filed.

Many more retailers are expected to follow suit as they run out of working capital or are unable to refinance their debt.

Emerging from bankruptcy is harder than ever because of changes in the bankruptcy code and trouble in the credit markets, which are largely refusing to put new money into troubled companies.

Wall Street analysts said in November that the prospects of long-term survival for Circuit City were bleak. Months of declining sales sent the company over the edge, although its problems go back a decade. They include buying cheap real estate leases in inferior locations and laying off the company's most experienced sales staff. The latter saved money, but at the price of employee morale and countless customers.

"They basically destroyed all their customer loyalty among all their best customers in one fell swoop," said Britt Beemer, chief executive and founder of America's Research Group.

"That was really the beginning of the end."

The disappearance of the national chain means that in many markets consumers are running out of places to buy electronics, though shoppers are not the only ones being affected. The loss of Circuit City will probably be felt throughout the supply line as electronics manufacturers find themselves less able to negotiate prices.

The biggest electronics retailer left is [Best Buy](#). Circuit City's liquidation sales are likely to put pressure on Best Buy in the short run, but retailing analysts say the company will ultimately emerge with more market share.

"Even accounting for a softer economy," said David A. Schick, an analyst at Stifel Nicolaus, "the business will go to specialty players in the sector and it will also go to mass merchant discounters."

Analysts say they believe the biggest winner will not be Best Buy, but [Wal-Mart](#).

Ms. Widlitz said consumers who shopped at Circuit City were more likely to defect to Wal-Mart than to Best Buy, especially at a time when Wal-Mart has aggressively built up its stable of name-brand electronics at low prices.

"This is perfect timing for them," Ms. Widlitz said.

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